

One Big Beautiful Bill – Qualified Business Income (QBI) Deduction

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The QBI deduction was introduced by the Tax Cuts and Jobs Act (TCJA) and provides significant tax relief for owners of pass-through entities such as sole proprietorships, partnerships, and S corporations. This valuable deduction allows eligible business owners to deduct up to 20% of their qualified business income. Under the TCJA this deduction was set to expire after 2025.

OBBB makes the QBI deduction permanent, with a few minor modifications made to the deduction phase-in limits, and a new inflation adjusted minimum deduction. The amendments made by this bill will apply to taxable years beginning after December 31, 2025.

Increase in Taxable Income Limitation Amounts

Previously, the phase-in range for the wage and property limitations was \$50,000 for single taxpayers and \$100,000 for joint taxpayers. OBBB increases these ranges to \$75,000 and \$150,000, respectively, and indexes them for inflation after 2026. This means more taxpayers will be able to claim the deduction, and higher-income taxpayers in service businesses may benefit before the deduction phases out.

Minimum Deduction for Active Qualified Business Income

OBBB also introduces a new minimum deduction. If your combined QBI from all active qualified trades or businesses exceeds \$1,000, you're allowed a minimum deduction of \$400 (indexed for inflation after 2026), or your regular calculated deduction, whichever is greater. To qualify for the minimum \$400 deduction, you must materially participate in the business.

Types of Businesses

As mentioned above, the QBI deduction is available to owners of sole proprietorships, partnerships, and S corporations, and certain trusts and estates. Notably, C corporations are ineligible for the deduction. Additionally, owners of businesses in the fields of health, law, accounting, financial services and other service related businesses, known as SSTBs, are eligible only when the owner's total income (which includes all sources, including spousal income) does not exceed certain thresholds.

Contact Us for Guidance

The new tax legislation in the OBBB is expansive and complex, impacting individuals, businesses, and estates alike. Please see our previous [email blast](#) regarding this new legislation. Contact your Johnson O'Connor service team member today to discuss how the new law impacts you or your business.

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